

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-02 H-02 PA-02 PRS-01 /110 W

----- 081283

R 091741Z MAY 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1020

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 07112

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 9

BEGIN SUMMARY: THE 1974/75 WAGE ROUND IS ENDING BOTH WITH
A BANG AND A WHIMPER AS UNIONS PRESS INFLATIONARY WAGE
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CLAIMS AND/OR THREATEN STRIKE ACTION WHILE CHANCELLOR

HEALEY ISSUES WEEKLY WARNINGS ON THE DANGER OF WAGE ACCELERATION. STRIKES ARE THREATENED BY ELECTRICAL POWER WORKERS, RAILROAD WORKERS AND CHRYSLER CAR WORKERS UNLESS WAGE SETTLEMENTS OUTSIDE THE "SOCIAL CONTRACT" ARE AGREED TO BY MANAGEMENT. THE CHRYSLER WORKERS ARE BEING OFFERED WORKER PARTICIPATION AND PROFIT SHARING IN LIEU OF A "SUBSTANTIAL, PAY SETTLEMENT (SEPTEL). THE NATION'S FIRE-MEN ARE ON A "GO-SLOW" WAITING FOR AN INTERIM SETTLEMENT (ALSO OUTSIDE THE "SOCIAL CONTRACT") AND A STRIKE AT DUNLOP IS DISRUPTING PRODUCTION AT BRITISH LEYLAND. THE UNIONS (ALONG WITH SECRETARY OF STATE FOR INDUSTRY BENN) ARE DISPUTING BRITISH STEEL'S PROGRAM TO REDUCE EMPLOYMENT IN STEEL MILLS IN THE FACE OF FALLING SALES AND RISING LOSSES. MEANWHILE THE DECLINE OF OUTPUT CONTINUES WHILE PRICES (REFLECTING THE WAGE PRESSURES) AND UNEMPLOYMENT CONTINUE TO RISE. US MEDIA VIEWS OF THE BRITISH ECONOMY ARE PROVOKING COMMENT, AND THOSE OF TELEVISION COMMENTATOR ERIC SEVEREID PROVOKED A LENGTHY, INTROSPECTIVE, SELF-CRITICAL EDITORIAL IN THE TIMES OF MAY 8, AND A RIPOSTE IN THE FINANCIAL TIMES OF MAY 9. END SUMMARY

1. BUSINESS CONFIDENCE. THE MOST RECENT FINANCIAL TIMES MONTHLY SURVEY OF BUSINESS OPINION INDICATES NO UPTURN IN BUSINESS OUTLOOK. WHILE WELCOMING THE APRIL 15 BUDGET, THE RESPONDENTS ARE STILL SLIGHTLY MORE PESSIMISTIC ABOUT THE GENERAL OUTLOOK THAN IN THE PREVIOUS SURVEY. EXPORT PROSPECTS ARE STILL CONSIDERED STRONG, BUT THE TREND OF NEW ORDERS AND PRODUCTION/TURNOVER HAS WORSENED. INVENTORIES OF MANUFACTURED GOODS ARE EXPECTED TO DECLINE, AND LABOR REQUIREMENTS ARE STILL EXPECTED TO DECREASE BY MANY RESPONDENTS. THE NUMBER SEEING A FALL IN CAPITAL INVESTMENT HAS RISEN SLIGHTLY.

2. BANK LENDING. THE DEMAND FOR BANK LOANS CONTINUES TO BE WEAK. STERLING ADVANCES TO UK RESIDENTS BY LONDON CLEARING BANKS FELL BY 107 MILLION POUNDS IN THE MOST RECENT 30-DAY REPORTING PERIOD TO APRIL 16. STERLING DEPOSITS BY UK RESIDENTS ROSE BY 220 MILLION POUNDS. THE BANK'S RESERVE RATIO IS 13.3 PERCENT, AN "EASY" POSITION. THUS, DESPITE EXTERNAL PRESSURES ON THE POUND WHICH LED

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THE BANK OF ENGLAND TO INCREASE THE MINIMUM LENDING RATE, THE DOMESTIC PRESSURES AT PRESENT ON BANKS ARE STILL TOWARDS LOWER INTEREST RATES. HOWEVER, THE GOVERNMENT'S NEED TO FINANCE A LARGE DEFICIT MAY PUT UPWARD DOMESTIC PRESSURES ON INTEREST RATES IN THE WEEKS TO COME.

3. OFFICIAL RESERVES. UK OFFICIAL RESERVES INCREASED BY \$15 MILLION DURING APRIL AFTER AN ACCRUAL OF \$36 MILLION

IN FOREIGN CURRENCY BORROWINGS BY THE PUBLIC SECTOR UNDER THE EXCHANGE COVER SCHEME. OFFICIAL RESERVES STOOD AT \$7,132 AT THE END OF APRIL.

4. STERLING DEPRECIATION. STERLING CONTINUED TO WEAKEN OVER THE WEEK. ON A TRADE WEIGHTED BASIS, THE POUND'S EFFECTIVE DEPRECIATION, SINCE SMITHSONIAN, WIDENED TO A RECORD LOW OF 23.8 PERCENT ON THURSDAY, MAY 8, A ONE PERCENTAGE POINT DECLINE OVER THE WEEK AND NEARLY TWO PERCENTAGE POINTS SINCE THE APRIL 15 BUDGET. FOREIGN EXCHANGE DEALERS CONTINUE TO REPORT RELATIVELY LIGHT TRADING.

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SIL-01 L-02 H-02 PA-02 PRS-01 /110 W

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R 091741Z MAY 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1021

INFO AMEMBASSY BERN

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5. EXCHANGE RATE AND GOLD:

5/1 5/8 CHANGE
EXCHANGE RATE \$2.3485 \$2.3415 DOWN \$0.0070
EFFECTIVE DEPRECIATION
(PERCENT) 22.8 23.8 WIDENED 1.0
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GOLD \$166.00 \$166.75 UP \$0.75

6. FORWARD DISCOUNT ON STERLING:

5/1 5/8 CHANGE
1 MONTH 1.20 1.23 UP 0.03
3 MONTHS 3.40 3.60 UP 0.20
6 MONTHS 6.40 6.75 UP 0.35
(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES:

5/1 5/8 CHANGE
1 MONTH 5-5/8 5-9/16 DOWN 1/16
3 MONTHS 6-7/8 6-9/16 DOWN 5/16
6 MONTHS 7-7/8 7-5/8 DOWN 1/4

8. LOCAL AUTHORITY DEPOSIT RATES:

5/1 5/8 CHANGE
1 MONTH 9-1/2 9-1/4 DOWN 1/4
3 MONTHS 10-1/16 9-3/16 DOWN 7/8
6 MONTHS 10-3/8 10-1/16 DOWN 5/16

9. THE MINIMUM LENDING RATE

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Message Attributes

Automatic Decaptoning: X
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Current Classification: UNCLASSIFIED
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Copy: SINGLE
Draft Date: 09 MAY 1975
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Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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Handling Restrictions: n/a
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Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
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TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006